

Wealth and freedom

An introduction to political economy

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Introduction

The world we live in places special emphasis on private affairs. We have organized our social institutions, especially our economies, to facilitate the pursuit of private interests. In this world we think of the things we accomplish in our lives in a special way: They are primarily our own accomplishments, and they are meant to serve our private ends.

At the center of this private world is a system of private property. More than anything else, we need private property to satisfy our wants. The property system is one of producing, consuming, buying, and selling. This is the system we have come to refer to as our economy. It is a private property, private enterprise, market-centered economy.

Political economy studies the properties of this private world: How does it work, and how well does it satisfy our wants? What does it mean to us, and how does it form our lives and shape the ideas we have about ourselves? And, perhaps finally, what are its limits? After all, the world of private affairs is not our whole world – or is it?

Many argue that the world of private affairs can and should be the whole of our (social) world. They argue that the public dimension of our world ought to be as narrow as is consistent with making the private secure. Echoing Adam Smith, they argue that our government should limit itself to domestic and international security and to a few public works essential to economic intercourse but unlikely to be provided by private agents acting in their own interests.

What, then, are the limits of the world of private affairs? When must we have recourse to a public authority – government – because the private associations we create and the private transactions we engage in are either not enough or the wrong thing? When, moreover, is our self-interest a matter of public concern, and when can and should it be left entirely up to us?

Our answers to these questions depend on three broad considerations. First, they depend on how we judge self-interest, whether we consider it a

virtue or a vice. The political economy I explore in this book does not consider self-interest a vice, although neither does it consider private ends the only ends. Second, the answers depend on how we understand our life together. Should it be limited, so far as possible, to private associations and transactions, or is more needed? How do our public and private lives interrelate? Finally, our answers to these questions depend on how we judge the functioning of the property system, especially the market. How does it work? When does it work well, and when does it not? What can it accomplish for us, and what must we accomplish in other ways?

These are questions for political economy. In the words of the greatest critic of political economy, Karl Marx, political economy studies the “anatomy of civil society.” By civil society, Marx had in mind what I have referred to as the world of private affairs. Civil society is the system of human interactions ruled by self-interest and the use of private property to serve self-interest. This is the world of political economy, viewed always with an eye to its limits.

In order to explore this “anatomy of civil society,” I develop some rudiments of a theory of market economy, one that I hope will be reasonably accurate and provide a foundation for answering some of the questions just posed. The theory I construct here highlights three interconnected themes of political economy, themes that focus the discussion of the limits of the world of private affairs: market economy as an engine of economic development, market economy as a foundation for liberty, and the problematic status of labor in market economy.

Adam Smith begins *The Wealth of Nations* with a theme regarding economic development, or the passage from the “savage state of man” to “civilized society.” He begins by asking what differentiates these two states and how might we successfully pass from one to the other. This theme concerning development is taken up with considerable energy and brilliance by Karl Marx, who, while recasting the theme in his own language, continues to make it central to political economy. What makes some rich, others poor, some nations wealthy, others not? When political economy addresses these sorts of questions, it makes development its central theme. I have done so as well in the following.

Many refer to the goal of economic development as justification for the use of private property in the pursuit of private interest. Those who do often argue that the pursuit of private gain is the only motivation at all likely to bring about development from poverty to wealth. They justify the free market system on the grounds that unfettered pursuit of self-interest will bring prosperity by assuring the strongest possible link between contribution and remuneration.

The first theme concerning development leads the classical thinker naturally to the second concerning liberty. Liberty is both a theme and an argument. The argument claims to show how a certain kind of liberty, the liberty of commerce, will solve the problem of how we, individually and as a nation, make the passage from poverty to wealth. This peculiar sort of liberty frees us to own and use private property in labor and in means of production (or capital stock) to pursue our private ends. In this book I introduce some of the conceptual and analytical tools economists use to argue for and against free trade, the liberty of commerce, as a solution to the problem of economic development.

But the theme of liberty is not just about how we go from a savage state to a civilized society; it is also about why we might want to do so and what we might expect to accomplish. For the classical economist, development means the growth of wealth, and civilized society means wealthy society. Wealth bears heavily on our freedom. Wealth is important not simply because it assures that our basic needs will be met but also because a measure of wealth is necessary to assure our autonomy. In Chapter 2 I try to indicate why this might be the case. If it is, we can only be free in a wealthy society, which does not, of course, mean that if we happen to be in a wealthy society we must be free.

Liberty is, then, both means and end. But the liberty we think of as means is not clearly of the same order as the liberty we think of as end. The liberty we think of as means is the liberty of commerce – in short, free trade. It is the liberty of individuals, and corporations, to own the nation's capital stock as their private property and use it to their advantage. Private ownership of society's productive resources is the hallmark of the kind of liberty political economists have claimed will lead to economic development.

The liberty we think of as the end has more to do with individual self-determination, integrity, and responsibility. The theme centering on liberty speaks about our aspirations, individually and collectively, to assure the conditions needed to sustain our independence of action and initiative. Liberty has to do with the opportunities that society affords us to determine who we are and how we will lead our lives. Wealth allows us to develop and exercise our autonomy and individuality. With enough wealth to support our freedoms, we can take on the burden of responsibility for our lives. Political economy concerns itself with the framework of individual responsibility and its limits. Wealthy society provides opportunity and demands that the individual take responsibility for him- or her-self. Liberty links up with responsibility.

This link introduces our third theme. Capitalist economies treat the individual's capacities as commodities to be bought, sold and therefore valued in markets. The term labor market refers to the set of exchanges trading

capacities for money. But not only are our capacities valued in markets and treated as commodities, their value in the market is the main determinant of our income and welfare. Because liberty depends on wealth and wealth on income, we must investigate the treatment of our capacities as commodities if we are to understand the implications of the market system for liberty.

The connection between the labor market and individual liberty, of course, goes beyond the way our access to wealth depends on the value of our capacities. Our ability to sell our labor for a wage or salary means that those capacities are ours in a special sense – they are our property. No other person or institution has the right to determine who we work for or what sort of work we do. This is also an important kind of liberty, although it is not without its hazards. When we have only the income from selling our capacities to live on, and when the market for those capacities is limited, our opportunities are limited. In many cases these limitations restrict our freedom more than they enhance it. Political economy can illuminate the complex relation between freedom and treating our capacities as commodities.

The treatment of labor as a commodity also has implications for the theme of development. The dependence of income on the sale of laboring capacity links income to production cost of which labor cost is a major component. The higher our wages and salaries, the higher our income; the higher our income, the more we can buy from those who hope to make a profit by selling things to us. At the same time the higher our wages and salaries, the more it costs those who hire us to help them produce those commodities. This means that the cost of labor has complex implications for the process of economic growth and development.

The connection of wealth to liberty makes wealth important and development worth the trouble. And trouble development most certainly is. The trouble arises because what we accomplish by development comes at a cost. This is also an important theme. Economic development is a social or national goal. It requires a vast mobilization of society in its service. Of those mobilized, only some, at times a small proportion, benefit much by it. The benefits become widespread only later. How we make development a goal matters.

The classical economists thought we could do so simply by setting individuals free to pursue their private interests as they perceived them. If we liberate commerce to pursue the goal of making the most money possible, then those engaged in commerce will do those things that lead to economic development. And, even though they appropriate a goodly share for their own personal use, they still devote a great deal of society's product, which they own as their private property, to building up capital stock for the future.

Many have doubted that economic development can be accomplished as the unintended consequence of private self-seeking, arguing instead that it

must be made an explicit objective of government policy and that government must direct and regulate the economy so as to assure that resources are well used. I explore some dimensions of this debate in the following pages. The debate has to do with the limits of liberty, at least of the liberty of commerce. It has something to do as well with ends of government. These ends express how our nation understands its common or collective purpose, or in an older language, the public or common good.

Political economy has its own way of thinking about the public good, one that focuses attention on private ends. That is, political economists often think the public good consists of the sum of private goods. The public good refers, then, to what benefits each of us individually by enhancing our welfare through increasing our real income. This line of argument links the public good to the end of economic development, which enhances the ability of the economy to provide for the material well-being of citizens.

Public policy is often discussed with an eye to its consequences for the size or growth rate of the national product, the level of income, or the rate of employment. We judge policy by its impact on economic performance. This makes sense; but it is also in some ways limiting. Other criteria matter. The habit of judging public policy by economic performance shifts these other criteria into the background. Consider the example of education.

Concern over failing competitiveness and slow productivity growth leads some observers to advocate more government involvement. Thus more spending on education will, it is argued, improve our stock of educated labor capable of scientific discovery and application while raising the skill level and productivity of the work force. Government's education policy becomes a part of its economic policy. This makes impact on economic performance a measure of the success of social policy.

Defining problems in this way is consistent with making economic growth and development the objectives of public policy. Doing so opens up an important and valuable line of investigation. But, taken by itself, it leaves out a vital dimension and distorts our understanding of the role of government. The part left out has to do with considerations of social justice. Concern for social justice can guide economic policy in directions different from those that follow concern for economic performance.

Concern with social justice directs attention to the idea of individual opportunity. Development refers to the path toward social arrangements that assure to all persons, so far as possible, the array of opportunities needed for individual self-determination. Without employment and income, the individual's effort to realize his or her capacities must be seriously impaired. Thus economic policy aimed at economic objectives has its place. But the underlying justification for policy is not narrowly economic.

A better educated labor force may indeed be more productive (although it

may also exhibit some qualities that work against productivity). But this does not make productivity the justification for government spending on education. A more compelling argument for investment in education holds regardless of its consequences for productivity. This argument links education to opportunity for individual self-determination.

Of course, if the point is to lobby for spending on education, why not appeal to a (perhaps dubious) relation between education and competitiveness if you think that argument might succeed? The result would seem to serve the cause of justice as well. But perhaps it does not. By employing economic arguments for social policy, we reinforce the idea that the role of government should be limited to making the market work better. This limitation can have damaging consequences. If it turns out that better schools will not enhance our productivity, the economic argument works against educational expenditure and thus against our concern for educational opportunity as a part of a movement toward greater social justice.

One way of expressing the difference between two ways of thinking about the role of government uses the language of rights and welfare (see Levine 1983a). Political economy carries on its arguments over policy in the language of welfare, loosely speaking of material well-being. This language is important, and concern over welfare is a legitimate end of political economy. But that concern needs to be carried forward into the context of a concern for individual rights and integrity. Concern for rights is not automatically met by improvements in welfare. Welfare and rights are not in fundamental conflict, but they are different. Each needs to be taken into account in a discussion of policy and the role of government.

Thinking this way connects two of the themes of political economy introduced earlier, those involving liberty and development. Placed within a context of concern for social justice, the expansion of freedom is the end of development. This makes policy in the interest of development subordinate to concern for justice, just as it makes justice the most powerful argument for development. In concern for social justice, we also have our most powerful argument for limiting the market and the process of economic development (i.e., when they threaten to damage justice and self-determination).

The considerations briefly introduced in this introduction suggest one other important dimension to debate in political economy. We normally link opportunity to equality by speaking of opportunity for all as "equal opportunity." Defining development as I have here must make concern over equality and inequality central. After exploring the core ideas of political economy concerning the workings of a market economy in Parts I and II, I turn to an investigation of the various arguments regarding equality and inequality.

I begin, in Part I, with an exploration of the idea of a self-standing economy and with the problem of the use of wealth. I attempt in this discussion to raise the core issues of political economy. In Part II I outline the basic features of a capitalist or private enterprise economy, which has been assumed by virtually all students to be the appropriate form of economic organization to assure the growth of wealth. This system exhibits a significant degree of inequality of income and wealth among citizens; and in Part III I consider the arguments advanced to justify inequality under capitalism. Part IV considers a set of related matters within a global setting, including questions of the role of the market, the roots of international inequality, and the emergence of global society. Part V considers arguments that justify setting limits on the free market and on the role of pursuit of private ends in organizing our social lives.